Fort Washington Investment Advisors, Inc.

High Yield Fixed Income Quarterly Commentary

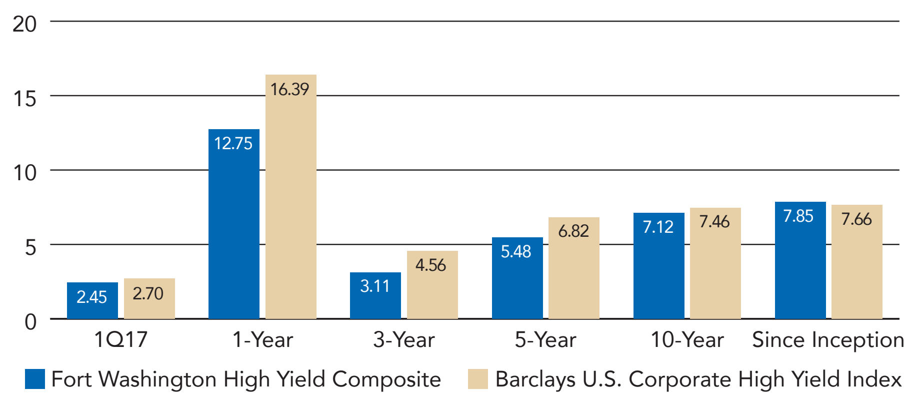
Fort Washington High Yield Fixed Income

Highlights

- The High Yield market generated a fifth consecutive quarter of strong performance in 1Q17, posting a 2.7% total return, as represented by the Barclays U.S. Corporate High Yield Index. The riskier portions of the market again led the way with CCC rated securities outperforming the higher rated segments of the market. In the quarter, CCCs and below were +5.1%, Bs +2.5%, and BBs +2.1%. In addition, long duration high yield (+5.6%) outperformed intermediate high yield (+2.5%), a reversal from last quarter.
- Our core strategy trailed the benchmark slightly due to our underweight allocation to lower quality securities. The portfolio's exposure to CCC and below paper is approximately one-quarter that of the index. With few exceptions, both positive and negative contributors to performance were well distributed. Notable positives included a satellite services provider who benefitted from a merger offer and our material underweight to Retail, the sole sector which showed a negative return for the quarter.
- We have halted our tactical move to gradually upgrade the quality of our portfolios. This decision has been driven by the highest quality holdings reaching our target prices and a broad, positive turn in fundamentals. Though the largest sector bets remain the same (overweight Cable/Satellite and Midstream Energy and underweight Metals & Mining and Wireless), we have opportunistically reduced sector weight dispersion and increasingly focused on security selection.

Historical Performance

Annualized Net Return as of March 31, 2017



Inception Date: 07/01/1994
Past performance is not indicative of future results.

Top Issuer Attribution

	Attr	Rel Wgt
Intelsat Jackson	0.11	0.60
Avaya	0.02	-0.02
Rite Aid	0.02	-0.30
Bank of America	0.02	0.43
Cablevision Systems	0.02	0.87

Bottom Issuer Attribution

	Attr	Rel Wgt
Tenet Healthcare	-0.04	0.50
Sprint	-0.02	-0.40
Albertsons	-0.02	0.50
Telecom Italia	-0.02	-0.50
Range Resources	-0.02	0.70

1Q17

Investment Professionals

Brendan M. White, CFA
Senior Portfolio Manager
30 Years Experience

Timothy J. Jossart, CFA
Portfolio Manager
24 Years Experience

Garrick T. Bauer, CFA
Portfolio Manager
20 Years Experience

Casey A. Basil
Senior Credit Analyst
15 Years Experience

William H. Bunn, CFA
Senior Credit Analyst
31 Years Experience

Bernard M. Casey, CFA
Senior Credit Analyst
25 Years Experience

Amy W. Eddy
Senior Credit Analyst
17 Years Experience

Helen H. Brennan
Credit Analyst
9 Years Experience

Patrick L. Burleson, CFA
Credit Analyst
7 Years Experience

Breen T. Murphy, CFA
Credit Analyst
9 Years Experience

Matthew J. Jackson, CFA
Leveraged Credit Trader
Analyst 5 Years Experience

Source: Fort Washington Investment Advisors. Past performance is not indicative of future results. Quality and sector distribution as well as portfolio attribution and allocation is subject to change at any time.

Market Overview

In 1Q17, the High Yield market produced solid returns as spreads tightened 26bps and the U.S. 10-year Treasury rate tightened by 8bps resulting in a total return of 2.7% for the quarter.

Similar to the past few quarters, returns were led by the riskier portions of the High Yield market with CCC rated securities outperforming the higher rated segments of the market. In the quarter, CCCs and below were +5.1%, Bs +2.5%, and BBs +2.1%.

Politics and oil prices once again were market movers leading volatility to return to the capital markets in March. Investors began to question how much progress the Trump Administration will be able to make in regards to healthcare policy, tax reform, and fiscal stimulus programs. Doubts about OPEC's ability to reduce inventories also surfaced.

Besides ratings, duration was a factor affecting performance in the 1st quarter. Long duration high yield (+5.6%) significantly outperformed intermediate high yield (+2.5%). Returns by sector and issuer were well distributed. That said, Retail was a notably weak performer (-1.7%) as consumers shift their purchasing habits away from traditional brick-and-mortar stores and towards on-line offerings. While Retail is a small sector within the high yield market, we continue to closely monitor the effects of consumer trends on traditional retailers as many of these issuers are rated BBB.

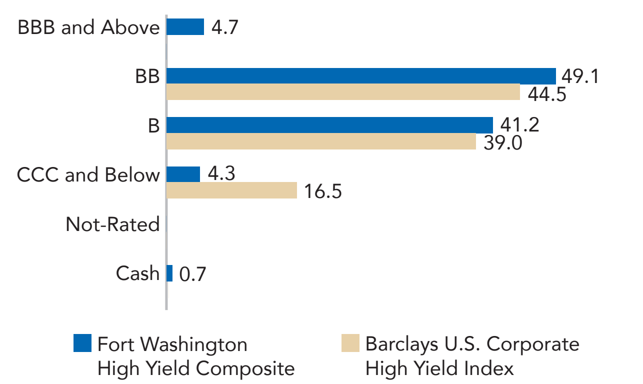
Statistics

	Composite	Benchmark
Quality	BA3/B1	B1/B2
Coupon	6.02	6.48
Price	101.77	100.93
Duration (OAD)	4.27	4.03
Current Yield	5.98	6.43
Yield to Worst	5.50	5.84
OAS	340	383
Number of Issues	433	2097
Number of Issuers	233	956

Benchmark: Barclays U.S. Corporate High Yield Index

Credit Quality

(% of Market Value)



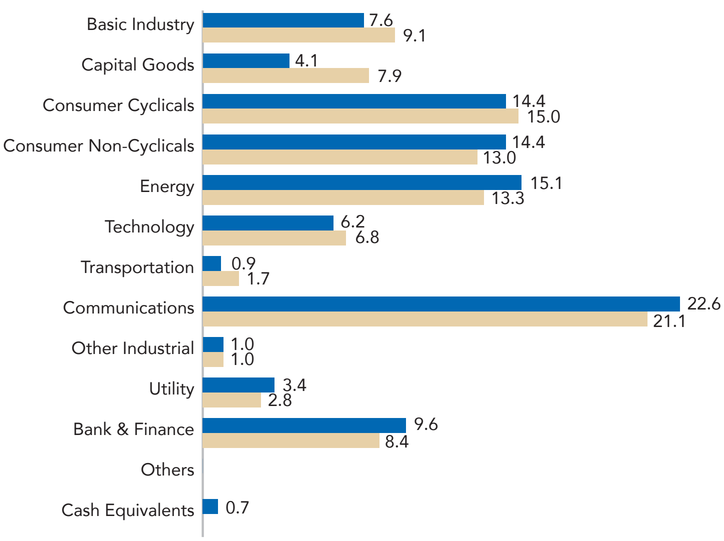
Portfolio Activity

Late in 2016, we paused our effort to gradually upgrade portfolio quality as high quality holdings reached our target prices. In addition, we recognized the beginnings of a broad, positive turn in high yield fundamentals. As a result, we reduced BBB exposure and continued to do so early in 2017. The ongoing rally also drove multiple shorter duration holdings to very tight levels. This led us to swap into slightly longer paper, often in the same credit, and capture substantial yield pickup. Lastly, this activity provided further opportunities to selectively reduce sector under/overweights. At this stage of the economic cycle, we prefer to express our conviction more through credit selection than sector positioning.

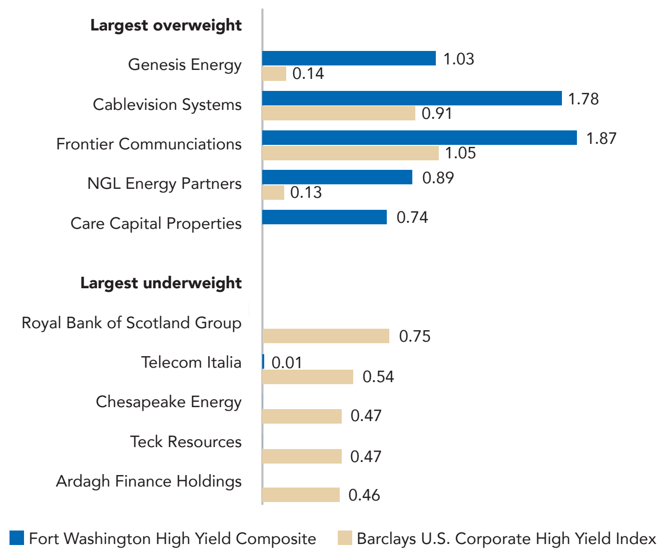
Overweights which remain are focused on sectors with relatively stable business models such as Cable Satellite and Midstream Energy. Though the index spread is near its cycle low, we believe that these sectors still offer attractive spread compensation for their stable cash flows and minimal expected default losses. Sector underweights are in place for a variety of reasons. The Metals & Mining underweight stems from the lower quality nature of many sector constituents and the operating leverage inherent to largely unhedged commodity business models. Our half weight to Retail derives from the online retail challenge facing many store owners. Tight trading levels combined with high leverage drive the Packaging underweight.

Improving fundamentals provide support for the market's current level, even though spreads are near the lower third of the historic range. The resulting balance sheet improvement and interest coverage stability support our reduction in higher quality holdings. That said, where capital markets' exuberance positively affects higher risk holdings, we will selectively reduce exposure. Recent examples include sales of a challenged satellite services provider and long exposure to a servicer of student loans. We will maintain this discipline and also limit positioning within the most concerning sectors, including Retail and Autos. This latter sector bears watching as it appears volume has peaked, used car pricing is weak, and subprime losses are on the rise.

Sector Exposures
(% of Market Value)



Largest Issuer Exposures
(% of Market Value)



Outlook

Factor	Outlook	Comments
Economy	Slightly Positive	• 2nd half GDP growth accelerated to 1.7% and 2.0% yoy vs. 1.6% and 1.3% in the 1st half. The 4Q16 result was slightly disappointing and 1Q17 estimates are stable to lower. • Wage growth is firm and ended 3/31 at +2.7% yoy; the unemployment rate maintained at 4.7% at quarter end; the consumer remains in good shape. • Near-term recession risk remains low due to the continued ease of financial conditions; we continue to closely watch the rise in Fed Funds, interest rates, and the strength of the USD.
Financial Conditions	Neutral	• Senior Loan Officer Surveys (SLOSs) are at 1% tightening (neutral, and stable); CCC issuance has returned to a low level after robust issuance in January (negative). USD has weakened ytd (positive). • Credit spreads have continued to tighten and are approaching post credit crisis lows. • Global central bank policies remain accommodative but less so than in 2016.
Interest Rates	Slightly Negative	• Upward pressure on nominal rates will likely continue due to rising inflation expectations. • Rise in rates should remain muted due to uncertainty in global economy and continued low growth globally; U.S. rates will remain attractive in a global context.
Fundamentals	Slightly Positive	• Ex-commodities, net leverage is declining albeit from a high level while interest coverage is stable. • Revenue and EBITDA (again ex-commodities) growth rates are positive and increasing. • Productivity growth and capex remain persistently low. • Defaults ended the quarter at an estimated 4.1% (approx. 2.2% ex-commodities). • Market is pricing in a 2%-4% default rate which we believe is fair given the level of financial leverage, stable interest coverage ratios, and lack of CCC rated debt issuance.
Valuation/Spreads	Slightly Negative	• High Yield spreads ended the quarter at +383bps; +374bps ex-commodities – 35th percentile ranking. • Non-commodity BB/B spreads are at fair value given low expected default rates, high level of domestic economic exposure, and low level of maturities. • Commodity sectors are priced similar to non-commodity sectors leaving little room for error given their mix of operating and financial leverage. • Aggregate yields ended the quarter at 5.84% which is only at the 2nd percentile level; unattractive in a historic context and insufficient when defaults begin to increase.
Outlook & Positioning	**Neutral**	**• We are comfortable with high yield valuations ex-CCCs which drives our neutral outlook. • Current spread levels offer fair value for the expected default rate environment and we expect coupon like returns for 2017. • Commodity sectors provide an unattractive risk/return profile given the weak nature of the global economic recovery and their high operating leverage; although the composition of the index has changed with the large number of fallen angels in 2016 (average quality has increased). • We are taking the opportunity to sell down some BBB credit exposure in portfolios and roll those proceeds into high quality BB/B names. This will have the effect of increasing the overall spread of the portfolio (increasing credit risk) while slightly decreasing duration (interest rate risk).**

Source: Fort Washington. The above outlook reflects subjective judgments and assumptions; subject to change at any time. Unexpected events may occur so there can be no assurance that developments will transpire as forecast. This is for informational purposes only and should not be construed as investment advice or a recommendation of any particular security, strategy, or investment product. Past performance is not indicative of future results. Fort Washington, rankings of Barclays U.S. Corporate HY Index statistics for quarter, against Index history.

Composite Performance Disclosures

	1Q17	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
High Yield Fixed Income (Gross)	2.52%	12.84%	-3.82%	2.50%	6.26%	14.08%	6.63%	13.62%	49.08%	-19.18%	3.36%
High Yield Fixed Income (Net)	2.45%	12.52%	-4.09%	2.23%	6.01%	13.83%	6.38%	13.40%	48.79%	-19.35%	3.14%
ML-Barclays Linked Benchmark[1]	2.70%	17.13%	-4.55%	2.45%	7.39%	15.44%	4.51%	15.24%	56.14%	-26.21%	2.15%
High Yield Fixed Income 3-Year Annual Standard Deviation[2]	—	5.82%	5.59%	4.53%	5.75%	5.89%	9.02%	—	—	—	—
ML-Barclays Linked 3-Year Annual Standard Deviation[2]	—	6.01%	5.27%	4.42%	6.33%	6.93%	10.77%	—	—	—	—
Dispersion[3]	0.15%	0.40%	0.75%	0.15%	0.35%	0.56%	0.36%	0.89%	5.50%	3.00%	0.72%
Number of Accounts	18	18	20	21	17	21	19	15	14	10	12
Composite Assets ($ Millions)	$3,079.9	$3,287.2	$3,474.8	$3,868.0	$4,057.0	$4,285.5	$3,063.4	$2,820.5	$1,970.4	$968.2	$1,297.7
Composite % of Firm Assets	6.20%	7.20%	8.09%	8.60%	9.29%	10.09%	8.09%	7.79%	6.59%	3.87%	4.72%

Composite inception and creation date: 07/01/94.

[1]Effective 01/01/16, the benchmark for this composite is the Barclays U.S. Corporate High Yield Index. Prior to 01/01/16, the benchmark for this composite was the Merrill Lynch U. S. Cash Pay High Yield. Given the strong similarity between the benchmarks, the change was made to enhance portfolio analysis capabilities.

[2]The 3-Year annualized ex-post standard deviation is calculated using monthly returns to measure the average deviations of returns from its mean.

[3]Dispersion is not calculated for years in which the composite contains five portfolios or less. Dispersion is calculated as the equal weighted standard deviation of quarterly returns for those portfolios held in the composite during the full measurement period.

Past performance is not indicative of future results. Please see performance disclosures below.

Fort Washington's High Yield strategy seeks to outperform over a full market cycle (typically 3-5 years) by protecting principal in periods of market decline while providing a stable base of income across all periods. The focus is on the higher-quality credits exhibiting lower default risk and mature sectors that can be expected to weather a full market cycle.

All fee-paying fully discretionary portfolios managed in the High Yield Fixed Income style, with a minimum of $20 million under our management, are included in this composite. Effective 01/22/14, the High Yield Fixed Income fee is 0.50% for the first $100 million, 0.45% for the next $100 million and over for separate accounts, and 0.55% for the commingled vehicle. The benchmark for this composite is the Barclays U.S. Corporate High Yield Index.

Portfolios in this composite include cash, cash equivalents, investment securities, interest and dividends. Cash is maintained, within each separately managed account segment, in accordance with our asset allocation ratio. The U.S. dollar is the base currency. The specific securities identified and described do not represent all of the securities purchased, sold, or recommended.

Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net of fee performance was calculated using the actual management fees charged. Individual portfolio returns are calculated on a daily valuation basis. Prior to 01/01/97, individual portfolio returns were calculated on a monthly basis using a time-weighted return method. Past performance is not indicative of future results.

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